



Bushbuckridge Water Board Service Area
Retail Water Distribution Project
(USAID Contract No. 674-C-00-00-00065-00)

BOHLABELA DISTRICT MUNICIPALITY

WATER SERVICES PROVIDER OPTIONS STUDY FOR MARULENG LOCAL MUNICIPAL AREA

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ANNEXES

ANNEX 1

WSP WORKSHOP ATTENDANCE REGISTER

Acronyms

BWB	Bushbuckridge Water Board
BRWDPSC	Bushbuckridge Retail Water Distribution Project Steering Committee
BDM	Bohlabela District Municipality
DPLG	Department of Provincial and Local Government
DPW	Department of Public Works
DWAF	Department of Water Affairs and Forestry
KAP	Knowledge Attitudes and Practices
MSP	Municipal Services Partnership
MM	Municipal Manager
MLM	Maruleng Local Municipality
NGO	Non Governmental Organization
SALGA	South African Local Government Association
O&M	Operations and Maintenance
RWDP	Retail Water Distribution Project
S-L-M	Sekororo-Letsoalo-Mametja
USAID	United States Agency for International Development
WSA	Water Services Authority
WSP	Water Service Provider

Executive Summary

The study area is that of the Maruleng Local Municipality. There are two distinct service areas in the study area which have to be supplied with municipal water services, Hoedspruit including Kampersrus and the Sekororo - Letsoalo - Mametja area, referred to in the report as S-L-M. The existing service to Hoedspruit is provided through a bulk water supply system currently operated by the Department of Public Works and a reticulation system operated by Maruleng Municipality. The municipality also manages the Kampersrus system which is served from boreholes. In S-L-M, a series of water supply systems are operated by the respective communities and DWAF. It is intended that the ownership and legal responsibility for the S-L-M systems be transferred to the Bohlabela District Municipality as the Water Service Authority (WSA) for the area. This study considers options for the WSA in appointing a Water Services Provider (WSP) to take responsibility for the operations and maintenance of the various supply and reticulation systems.

The Hoedspruit system generally works well and there are no current operational problems. Of concern, however, is that both the water and sewage treatment plants are owned and operated by DPW as agents for the Air Force and there is no commitment to continue to provide for the growing needs of the town. A further concern in this regard is that the allocated water resource is already being fully utilised and unless a reduction in water usage can be achieved, additional resources will have to be acquired at a higher cost than applies currently. In terms of current legislation, however, the WSA has authority over water provision and should be able to ensure that the existing facilities are used for the optimum benefit of the whole area.

The general concerns for the water services in the S-L-M area are:

- The need for a consistent water supply service in the area
- The need to provide water to those who are currently not supplied.
- The preference for yard connections rather than communal standpipes
- The need to establish a sustainable financial basis for the service.
- The need to protect and enhance the jobs of the people working on the service.

In addition to the poor condition of the water network, the current delivery approach is not sustainable for three reasons. Firstly, it is not the responsibility of a National Department to provide such services - it is local government's responsibility. Secondly, there has to be payment from the users for the service being supplied (over and above the policy on "free" basic water) and finally, the lack of guarantee for long term support grants - the income generated by the users of the system, after allowing for the cost implications of the "free" basic water policy, is unlikely to be sufficient to cover the operational costs.

The other parts of the municipal area are not considered to have an impact on the future options for service provision.

The options that have been identified as possibly being appropriate in the Maruleng municipal area of Bohlabela are:

Water Services Provision by a Department of the District Municipality - the district municipality would take transfer of the current DWAF staff and facilities as well as staff employed by the local municipality and would appoint additional managerial and

technical staff of its own. Financing of the department would come from a combination of a subsidy from DWAF (for the first five years following transfer), from allocation from equitable share and from a gradually increasing amount of cost recovery. The district municipality would be responsible for obtaining grants to cover the cost of all new construction work.

Local Municipality as Water Services Provider - the district municipality would retain its responsibilities as WSA and it would contract with the local municipality to provide the WSP function. All the staff currently used to provide the service would be transferred to the local municipality who would also supplement that staff to create an effective organisation. The WSA would remain responsible for fixing tariffs based on a budget prepared by the WSP. The full responsibility for maintaining and operating the system is then that of the WSP. The WSA would remain responsible, however, for obtaining funding for capital expenditure required for expansion, upgrade and reconstruction of the system.

Partnership between District and Local Municipality - the district and local municipalities would create a water and sanitation service partnership and the WSA would contract with that partnership for it to be responsible for the provision of the service. This is the approach that has been selected for Bushbuckridge. In the early stages DWAF would also be a partner as they would be committing all their existing staff and resources. As the process of transfer took place, however, DWAF would become less involved in the management inputs and the partnership management would take over responsibility. The WSA would retain ownership of all the assets following transfer from DWAF.

Partnership between the Local Municipality and CBO's - this approach would involve the WSA contracting with the local municipality to undertake the WSP role for Hoedspruit and for the local municipality to act in a support capacity to the various community based organisations to provide the service in the S-L-M area. This support capacity could involve such matters as maintaining a store of spare parts, employing any specialist expertise which may be required, ensuring the provision of diesel and electricity, managing capital projects, financial management and billing, etc.

Whichever option is ultimately selected the WSP could, in order to strengthen its capacity and to benefit from the knowledge and skills of an established water services operator, enter into a management contract with a selected operator either from the public or the private sector.

A workshop with the key stakeholders was held in March 2003 when the contents of the first draft of this report were presented and discussed. Taking account of the discussions and preferences indicated in that workshop this report has been amended and finalised resulting in the following recommendation:

It is recommended that the two most favourable options that should finally be considered are:

- The creation of a partnership between Bohlabela and Maruleng to act as the WSP for the Maruleng area, or
- The appointment of Maruleng as the WSP for the area.

In both the above cases, maximum use should be made of existing and new community based organisations to take responsibility for clearly defined aspects of the water

services provision in their own areas. The level of involvement and responsibility taken by each of these organisations should then be taken into account in determining the tariffs applicable in each area.

It is now proposed that joint meetings of the relevant Council representatives from Bohlabela and Maruleng consider this report and that they make the final decision on the preferred structure of the Water Services Provider to be appointed to take responsibility for the service provision in the Maruleng area.

Options Study for the Choice of a Water Services Provider for the Maruleng Municipal Area

1. CURRENT STATUS OF SERVICE DELIVERY

1.1 Demographic Information

The information published by the Municipal Demarcation Board gives the following data for the Maruleng municipal area:

No. of Households	18,380	
Total Population	87,873	
Average Persons per Household	4.8	
Number of People Employed	11,149	
Number of People Unemployed	8,244	
Total People Employable	19,393	22%
Number of People Aged Younger than 20	48,278	55%
Number of People Aged Between 20 and 64	32,554	37%
Number of Households with Income less than R1,000 pm	13,633	74%
Number of Households with Access to Electricity	5,215	28%
Number of Households with Flush Toilets	2,306	13%
Number of Households with Pit Latrines	8,232	45%
Number of Households with Unacceptable Sanitation	7,842	43%
Number of Households with Water Connection in House	2,555	14%
Number of Households with Water Connection On Site	3,733	20%
Number of Households Accessing Water by Public Tap	7,444	41%
Number of Households with Other Forms of Water Source	4,648	25%

Much of the above information is based on the results of the 1996 census so it is already out of date. This is particularly relevant to the information on household income. It is also generally experienced that there was an undercount of population in this census of between 10 and 20% but that the number of households is generally a reasonable indication of the actual situation. For the purposes of this study, therefore, it has been assumed that the total population of the area is approximately 100,000 and that there are approximately 19,000 households.

In respect of water and sanitation, much work has been done in the area since 1996 and one can therefore expect that the number served by a basic level of service in respect of water has increased from the figures quoted.

For the purposes of the assessment of the status of the existing water and sanitation service provision, the municipality has been sub-divided into the following areas based on the water supply system and the conditions prevalent in the area:

- Hoedspruit
- S-L-M
- Kampersrus
- Remainder of the municipal area

1.2 Hoedspruit

1.2.1 Water Supply

The water treatment plant serving the area is owned and operated by the Department of Public Works (DPW). This has come about as the works were constructed in 1979 to serve the Hoedspruit Air Force Base and the associated military housing area of Drakensig. An agreement has been in place since that time whereby DPW provides treated water to the town of Hoedspruit from this plant. This agreement does however limit the quantity of water to be supplied to a figure that has been far surpassed under current conditions and also reserves the right to discontinue the supply - an approach which is in conflict with current legislation which gives high priority to the supply of primary water for domestic consumption.

The water usage for the past 18 months is summarized in the following table:

	Monthly Water Usage							Water Usage (kl/day)		
	Total	Air Force		Hoedspruit				Total	Air Force	H'spruit
	kl	kl	Growth	kl	Growth	Cost				
						R 1.20				
Jan - Jun 2001	181,600	147,217		34,384		R 41,260	6,016	4,878	1,139	
Jul - Dec 2001	182,850	146,447	-1%	36,403	6%	R 43,684	5,960	4,774	1,186	
Jan - Jun 2002	200,050	154,171	5%	45,880	26%	R 55,055	6,618	5,104	1,514	

From the above table it can be seen that the Air Force is currently using an average of 5.1 Ml/day. It has been indicated that this use is probably split evenly between the base itself and the residential area. The town's use equates to an average of 1.5 Ml/day.

The following is estimated as being a reasonable assumption of the current water balance:

	Ml/day	Losses
Water delivered to the plant	8.5	
Water delivered from the plant	7.3	15%
Water supplied to users	6.6	10%

The allocation of raw water for the plant from the Blyde River system currently stands at 3.6 million cu.m. per annum or 10 Ml/day. From the above table, therefore, the current use is close to the permitted allocation. No information is available to measure the losses in the internal reticulation systems of the base and the town but the losses measured above already represent a considerable impact on available water supplies. Before any decisions are made on any upgrade of facilities it is recommended that a detailed investigation be carried out into ways in which the above losses, as well as any losses, misuse or wastage of water in the internal distribution systems of both the base and the town, can be addressed.

		Present Demand		Annual Growth in Demand	Projected Demand		Annual Growth in Demand	Projected Demand		Annual Growth in Demand	Projected Demand	
		2002			2003			2008			2013	
		Volume		Volume		Volume		Volume				
		kl/day	%	kl/day	%	kl/day	%	kl/day	%			
Air Force												
Base		2,600	39%	0%	2,600	38%	4%	3,163	35%	0%	3,163	30%
Residential Area (Drakensig)		2,500	38%	0%	2,500	37%	4%	3,042	34%	0%	3,042	29%
Existing Town		1,500	23%	5%	1,575	23%	5%	2,010	22%	5%	2,566	25%
New Developments:												
Raptors View Wildlife Estate					30	0%		60	1%		100	1%
Raptors View Nature School					63	1%		63	1%		63	1%
Raptors View Business Area					15	0%		30	0%		41	0%
Raptors View Lodge					10	0%		10	0%		10	0%
Moditlo Estate						0%		75	1%		150	1%
Mentis Development					50	1%		500	6%		1,320	13%
TOTAL DEMAND		6,600			6,843			8,953			10,454	
Losses		10%			10%			10%			10%	
Output of Plant		7,300			7,569			9,903			11,563	
Losses		14%			14%			14%			14%	
RAW WATER REQUIRED		8,500			8,813			11,530			13,464	

In the town, many of the properties still make use of boreholes for watering of gardens, etc. With some 340 consumers being served, the average consumption of treated water is 130 kl per month. Even allowing for the impact of business consumers this is a very high usage factor. The growth factors of 6% and 26% in the above table are of significance as Hoedspruit is experiencing a growth in demand for water supply due to the various eco-tourism and general development projects which are being, or are planned to be, developed in the area. As these developments will be the main drivers to support local economic development in the area, it is critical that they be supported through the timely provision of appropriate services. Taking account of known projects which have to be supplied with treated water as well as predictions of growth for the existing areas the following future scenarios are attained:

			Present Demand		Annual Growth in Demand	Projected Demand		Annual Growth in Demand	Projected Demand		Annual Growth in Demand	Projected Demand	
			2002			2003			2008			2013	
			Volume			Volume			Volume			Volume	
			kl/day	%		kl/day	%		kl/day	%		kl/day	%
Air Force													
Base			2,600	39%	0%	2,600	38%	0%	2,600	29%	0%	2,600	31%
Residential Area (Drakensig)			2,500	38%	0%	2,500	37%	0%	2,500	28%	0%	2,500	30%
Existing Town			1,500	23%	0%	1,500	22%	0%	1,500	17%	0%	1,500	18%
New Developments:													
Raptors View Wildlife Estate						30	0%		60	1%		100	1%
Raptors View Nature School						63	1%		63	1%		63	1%
Raptors View Business Area						15	0%		30	0%		41	0%
Raptors View Lodge						10	0%		10	0%		10	0%
Moditlo Estate							0%		75	1%		150	2%
Mentis Development						50	1%		500	6%		1,320	16%
TOTAL DEMAND			6,600			6,768			7,338			8,284	
Losses			10%			10%			8%			8%	
Output of Plant			7,300			7,486			7,976			9,004	
Losses			14%			13%			12%			10%	
RAW WATER REQUIRED			8,500			8,604			9,064			10,005	

If the above scenario correctly reflects the future needs for the area then additional capital expenditure will be required in the near future to either expand the existing plant or to construct a new plant. This expansion would also have to utilise raw water from the Blyde River pipeline system at a higher unit cost than the present cost of raw water. If, however, minor savings can be achieved in the water losses currently being experienced in the water production cycle and if the use of water in Hoedspruit, Drakensig and the Air Force Base can be slightly reduced through stricter controls of the use of water then the following alternative scenario could be expected:

With this scenario no upgrade would be necessary for the foreseeable future with the known development requirements of the area.

In view of the potential cost savings which could be achieved, it is strongly recommended that this second alternative be vigorously pursued before committing to providing new capacity.

The authority responsible for on-going operation and any possible upgrade of the facilities will have to be clarified. DPW currently is the owner and operator of the plant due to their support role for the air force base. Current legislation, however, places the responsibility for the provision of potable water with the Water Services Authority (in this case Bohlabela). It is important that this matter be clarified. Possible options are for the responsibility for treatment and supply to be transferred to the WSA or for DPW to enter into a Service Delivery Agreement for the continued provision of the service to all users in the area.

1.2.2 Sanitation

As DPW is also responsible for the operation of the waste water treatment works, the comments given above in respect of water also apply to sewerage.

1.3 Sekororo, Letsoalo, Mametja

1.3.1 Population

This area contains a population of about 70,000 spread over some 23 villages in the north west of the municipal area. It is estimated that there are around 13,000 households and the area is typically one of low socio-economic development.

1.3.2 Water Supply

The existing water sources for the area are boreholes and surface water, the later being of reasonably good quality due to the villages generally being situated at the foothills of the Drakensberg mountain range.

Several villages have storage and reticulation systems to the standard of a basic level of service. Where it is necessary, water is chemically purified to ensure that it is safe.

Presently, however, much of the area does not receive any water due to a lack of maintenance by DWAF who are responsible for operations and maintenance. Pumps are broken down and are not repaired or replaced in time. As a result of non-payment by DWAF, electricity supplies to pumps have, on occasion, been cut off and there is a shortage of diesel for pump engines.

A new irrigation pipeline has recently been built as a private initiative of the irrigation farmers in the adjacent area. This pipeline terminates close to the south east start of the S-L-M area and a certain allocation of the water resource has been made for domestic purposes. Consultants acting for DWAF have undertaken a feasibility study to use raw water from this pipeline, to construct a treatment facility and to pipe the treated water to all of the S-L-M area. The estimated capital cost of this is R100 million. The study does not deal with operational costs but of concern is the cost of the delivered raw water due to the need to contribute to the capital cost of the pipeline. In addition, a careful examination of the affordability of treated water will have to be made to ensure that the resultant on-going costs can be borne by the Municipality out of equitable share allocation and whatever level of cost recovery can be achieved.

1.3.3 Sanitation

No water borne sewerage facilities exist in this area. Due to the plot sizes it is, however, considered feasible for on-site sanitation to be accepted as the long term solution in this regard. Assistance should, however, be provided in respect of advice on how to construct acceptable forms of on-site sanitation facilities. As a minimum this should be a VIP toilet but other forms such as the “EnviroLoo” and septic tanks systems should also be considered.

1.3.4 Growth Scenario in Population and Service Demand

No detailed information is available in respect of potential growth in population. As this area does not offer employment opportunities it is unlikely that it will experience any major growth in terms of population.

It can, however, be expected that there will be a certain number of households who would require and be able to pay for a higher than basic level of service. The improvement and development of this area should, therefore, allow for this to be accommodated and for these higher levels of service to be provided based on the customer paying the necessary charges. It should be noted, however, that the spaced out nature of the properties in this area will make the cost of providing water infrastructure more expensive than normal. This can be offset by the lower cost of supplying water due to the use of boreholes and surface water sources of reasonable quality.

1.4 Kampersrus

This is a small residential area containing some 250 properties. It is a high income area and apart from a bulk water supply is basically self sufficient. Many properties use their own borehole supplies and are not dependent on the town water supply.

1.5 Remainder Area

Development in the remainder of the municipal area is generally farming and eco-tourism. These facilities will normally have their own water source and are not served by any municipal system. In terms of the Draft White Paper on Water Services such developments are responsible for housing and related services, including water and sanitation, of their employees and their families living on the properties.

It is impractical for municipal water services to be provided to such scattered properties. The WSA should therefore consider, in determining the conditions under which it will provide water services, to define the areas which it can reasonably serve. These areas would then be limited to the area around Hoedspruit, Kampersrus and the Greater S-L-M area where the density of population can justify the costs of providing a municipal water service.

1.6 Full cost of the service provision

The service to the area is currently provided by different parties and no realistic costing is therefore available.

1.7 Capital sources for rehabilitation and expansion

In Hoedspruit the fact that the water and sewage treatment plants are owned by DPW means that it will be difficult for the Municipality to raise funds for any required expansion. Expansion of the reticulation systems is generally funded by the relevant developers.

In S-L-M, DWAF has been providing funding for upgrade work. Future upgrading should continue to be funded by DWAF as well as by CMIP.

1.8 Tariff structure

The current tariff for water in Hoedspruit is R1.40 per kl. This should be compared with the recently approved tariff structure for the district of the first 6 kl used in a month being free, usage above 6 kl and up to 30 kl being charged at R1.90 and usage above 30kl in the month being charged at R2.50 per kl. The effect of the new tariffs compared with the previous tariffs, for different levels of water use, is shown in the following table:

Usage in Month Kl	Cost	
	Current Tariff	New Tariffs
5	R 7.00	Free
10	R 14.00	R 7.60
20	R 28.00	R 26.60
30	R 42.00	R 45.60
40	R 56.00	R 70.60
50	R 70.00	R 95.60
60	R 84.00	R 120.60
80	R 112.00	R 170.60
100	R 140.00	R 220.60

No formal tariff structures are in place for the S-L-M area although certain communities are making contributions to the direct costs that they incur in operating community based water systems.

1.9 Income distribution, affordability and willingness to pay

The households in the Hoedspruit area generally have reasonable incomes and are therefore able and willing to pay for water and sewerage services. The S-L-M area, however, is typified by low household income levels where the ability to pay for services will be limited. Certain of the villages in the area have, however, shown willingness to pay for a service by contributing to operational costs of localised systems. There also appears to be a respect for the benefits of a reticulated water service and the general impression is that there would be a willingness to contribute to an acceptable service. It is considered that the majority of the households would, however, not use more than the permitted free basic water amount.

1.10 Revenues, collection patterns and history

Only limited historical information is available in respect of revenues and collection patterns. It is anticipated that no problems will exist in Hoedspruit and that the revenue generated in S-L-M will be extremely limited due to large dependence on free basic water.

The residents of Drakensig do not form part of the Hoedspruit system as their services are provided by DPW and paid for by the Defence Force. Each Defence Force member who has use of a house there pays for services depending on his or her rank and they are therefore not paying for actual water consumed. If control is to be exercised over the use of the overall water resource it is suggested that the Defence Force should be required to apply a “pay for use” system in this regard.

1.11 Cross subsidies

No cross subsidisation are currently applied and very little opportunities exist in this area for such a policy to be applied.

1.12 Organisational and human resources structure

The current organisational structure consists of the DWAF personnel in S-L-M, DPW personnel operating the works in the Hoedspruit area and an extremely limited administrative function within Maruleng Municipality.

1.13 Identification of stakeholders

The key stakeholders with interests in this area include the following:

- Bohlabela District Municipality
- Maruleng Local Municipality
- Department of Water Affairs and Forestry
- Department of Public Works
- Defence Force / Air Force
- Ward Committees of the identified areas
- Blyde River Irrigation Board

2. PROFESSIONAL COMMENT ON STATUS QUO

2.1 The technical quality of delivery

The current standard of service delivery in Hoedspruit is adequate. The current standard of service delivery in S-L-M is unacceptable.

2.2 The adequacy of the equipment required to deliver the service

As described above the availability of raw water and the capacity of the water treatment plant are at or close to their upper limit for Hoedspruit. This could possibly be dealt with by managing, and thus reducing, the demand for water in the area.

The adequacy of the equipment in S-L-M is unacceptable due to lack of adequate maintenance and long reaction times to breakdowns.

2.3 The adequacy of current maintenance and rehabilitation programmes

Apart from the operations under the control of DPW, the current maintenance and rehabilitation programmes are inadequate or non-existent.

2.4 The ability and extent to which staff is equipped to meet the requirements

Apart from the operations under the control of DPW, the current staff is not adequate nor are they equipped to fulfil the requirements of providing an acceptable level of water services provision.

2.5 The constraints on the capacity to deliver

The constraints for the Hoedspruit area rest on the ability of DPW to provide a water supply service adequate for the growing needs of the area. As discussed above this is linked to the available water resource and the principle of DPW to continue to be responsible for the supply of water and sewage treatment services to the town.

The constraints for the S-L-M area are considerable. There is a need for additional capital investment in the area to improve the consistency of the service, to expand the available water resources and to expand the levels of service available. There is also a need to establish a customer oriented service which is able to quickly rectify faults and breakdowns as well as having adequate funds available to undertake pro-active maintenance and support work. These factors have also to be linked to a system whereby those who desire a higher level of service than basic can receive such a service and where their water use can be measured so that payment can be obtained.

2.6 Options for and acceptability of differing levels of service provision

In areas which are supplied with reticulated water a range of service levels could be offered to users. While the unit tariffs for the supply of water would be similar, the different levels of service would allow users to decide how much they can afford to pay for water. Typical different levels applicable in this area could be:

- Service Level A : Communal standpipes

- Service Level B: Yard connection - one tap situated in the yard with a restriction on the quantity of water supplied.
- Service Level C : House connections - a number of taps at the required points inside the house and an unrestricted, metered supply

Should such an approach be adopted, the conditions applicable to each level could typically be the following:

Service Level	Estimated Water Consumption per month (kl)	Meter Required for every house	Monthly Payments Required (assuming basic water supplied at no charge)	Estimated Typical Monthly Cost (Future Situation) (Rands)
A	6	No	No	Nil
B	12	No (initially)	Yes	R 30 (Fixed Charge)
C	25	Yes	Yes	R 100 (Charge based on usage)

Users who wished to go on to the levels B or C (or to formalise their existing unauthorised connection) would also have to pay an initial connection fee, which would be higher for C than for B, and may also have to lodge a deposit with the WSA to guarantee that they will pay their accounts.

(Note: All service zones should have bulk meters installed so that control can be maintained on the total water consumed - this then provides a check on any possible illegal use or leaks in the system.)

2.7 The tariff structure, revenue collection and scope for improvement

As stated earlier, there is no realistic tariff structure and only extremely limited attempts at revenue collection. The following steps in moving towards rectifying this situation have already been completed by the WSA:

- Promulgation of bylaws giving the WSA powers to establish tariffs and to support the revenue collection process.
- The adoption of a “free” basic water policy.
- The adoption of a tariff policy
- The promulgation of tariffs for the 2002/03 financial year

Following the above initial steps, actions will have to be taken to apply and enforce the tariffs and charges as well as establishing the infrastructure to support the development of a revenue collection process. Further actions which would therefore be required include:

- Establish a revenue collection and management unit
- Establish a regular system of sending accounts to existing metered customers
- Establish a credit control system to take action in the case of non-payment
- Identify non-metered high users and install meters

2.8 Any technical matters that should be flagged for attention

Communities in S-L-M are currently served from boreholes or from localised surface water sources. A report by the consulting engineers, EVN (appointed by DWAF), has

proposed a R100 million investment to use water from the Blyde River Irrigation Pipeline, provide a water treatment works and to pipe it the length of the S-L-M area. The report does not, however, deal with the likely operating costs of such a facility which would have to include the cost of purchasing raw water from the irrigation system. It is of concern that these operating costs will make the cost of this water extremely high - a cost which, bearing in mind the fact that most of the water use in the area will be free basic water, will have to be borne by the WSA. The same report appears to indicate that by expanding the existing system of boreholes and surface water sources the needs of the area can be met for the next ten years. If this is the case it would then be possible for the required water services to be provided at a much lower operational cost and the R100 million could be used much more effectively in improving the service levels to all the communities in the area.

The other main technical challenge is the establishment of a unit which can support the water and sanitation needs of the area and which will be responsible for ensuring a consistency of water supply to the identified service areas.

2.9 The accessibility of capital for expansion and rehabilitation

DWAF is currently providing the majority of capital funding for the system. The allocation of such funding is however decided upon by the New Projects group in the Department. This often results in capital projects being identified which are not actually top priority if the needs of the operational aspects of the system are taken into account. Considerable additional funding is also required to address the refurbishment and upgrading of existing facilities to allow them to be operated efficiently or for them to actually do what they were designed for. There are no indications that such funds have, as yet, been made available.

Additional funding is also being provided through CMIP. The selected projects which receive this funding are, however, often the result of proposals by consultants and do not necessarily reflect the true priority for expenditure in the area.

As the WSA is a newly established District Municipality which is purely dependent on grant funding for its income, there is no borrowing capacity within this organisation. Other than applying for grant funds - which are not guaranteed to be allocated - the WSA is limited, therefore, in its ability to raise any capital for expansion or rehabilitation. Where such funding is available, however, from DWAF, CMIP or other source, it is critical that the WSA, in consultation with the local municipality, be the organisation which controls its use and which ensures that it is being applied in the best possible manner for the overall benefit of everyone in the area.

2.10 The scope for partnerships with other service providers

The only official water services provider operating in the area of the WSA at this time is the Bushbuckridge Water Board. The Lepelle Water Board also operates in an adjoining area. Other potential local public sector partners which could be considered in this regard would be the local municipality of Maruleng. Potential service providers could also come from public bodies such as the other water boards, NGOs such as AWARD and Mvula Trust, community based organisations who are currently providing services to their own areas and, of course, from a whole range of local and international private sector water companies.

3. DESCRIPTION OF STANDARD OPTIONS

3.1 General description of options

Municipal Service Partnerships (MSP) for water services can take a variety of possible forms. In one context the options range through Public/Public Partnerships, Public/Private Partnerships, Public/NGO Partnerships and Public/Community Partnerships. Within this context a range of contracting options are available which cover corporatisation, service contracts, lease contracts, management contracts, build-operate-transfer (BOT), concessions and full privatisation. Each one of these contracting options has a range of variations which can then be applied or certain features of different options can be combined to provide an appropriate solution.

This section will provide a generic description of each of the standard options and it will be these standard options which will be used to initially test the conditions existing in the Maruleng area to give direction on the likely options which will be most suitable for the specific conditions in the study area.

3.2 Partnership Options

3.2.1 Public/Public

In this option two or more public organisations team up to provide the necessary services. This could be two or more municipal authorities who combine to utilise their resources and available expertise on a more efficient basis thus benefiting from their combined abilities to provide and the synergy effect of developing a critical mass. Alternatively an established and focused organisation such as a water board could use its resource base and depth of skills and knowledge to support a local authority lacking in such resources. Where large amounts of capital investment have to be acquired, however, the public/public partnership is at a disadvantage and it has still not been shown that such a partnership can achieve the productivity levels experienced in the private sector.

In terms of the Water Services Act and the Framework Agreement between COSATU and SALGA the Public/Public option has to be considered before any other form of partnership can be adopted.

3.2.2 Public/Private

A public/private partnership is a contract created between the WSA and a selected private contractor to undertake a defined service. The authority would make the assets necessary for the provision of the defined service available to the contractor (but still retain full ownership of these assets) and the contractor would be required to perform to agreed standards. This creates one of the disadvantages of the public/private partnership in that the requirements of the contract have to be clearly defined and changes to these requirements leads to a renegotiation of the contract. The private sector contractor can, however, bring flexibility to the approach of service provision, will normally be able to achieve higher efficiencies and can generally access operating and investment capital.

3.2.3 Public/NGO

In this case the authority would contract with an NGO to provide specific services in the provision of the overall service. Due to the restricted capacity of most NGO's this would

be unlikely to extend to the full service provision. This approach, however, has considerable advantages in that it will generally involve local stakeholders and will assist with the building of capacity within the NGO. The negative aspects of this partnership form would be the probable lack of relevant skills and difficulty of the partnership to raise external funding for the on-going work. Problems have also been experienced elsewhere due to the NGO not generally being registered as a legal entity.

3.2.4 Public/Community Based Organisation

There are already examples of this approach in the area where local communities are managing the distribution and supply of the water, generally supplied from a borehole, to the users in their own area. This generally requires clearly defined communities of a size where communication and consensus can be readily achieved. If it can work, it assists the community by using the local skills and by keeping costs incurred to a minimum. Again this form of partnership does not facilitate the accessing of funding for capital expenditure and experience has shown that it is not always sustainable particularly when the original leaders move on and their successors are not as committed or capable. In some areas where this form of supply has been used there have also been problems of obtaining payment from the communities for services supplied.

3.3 Forms of Contract

The forms of contract discussed in the following sections can generally be applied within any of the forms of partnerships described above. The more sophisticated forms of contract are not, however, likely to be appropriate to the NGO or CBO partnerships.

Each type of contract can either be seen as a independent concept or they can be seen as a progressive method of developing more sophisticated approaches as the capacity of the authority grows with experience. This concept is reflected in the following diagram with each arrow representing a contract type and the content of the box describing the main difference between one contract and the next:

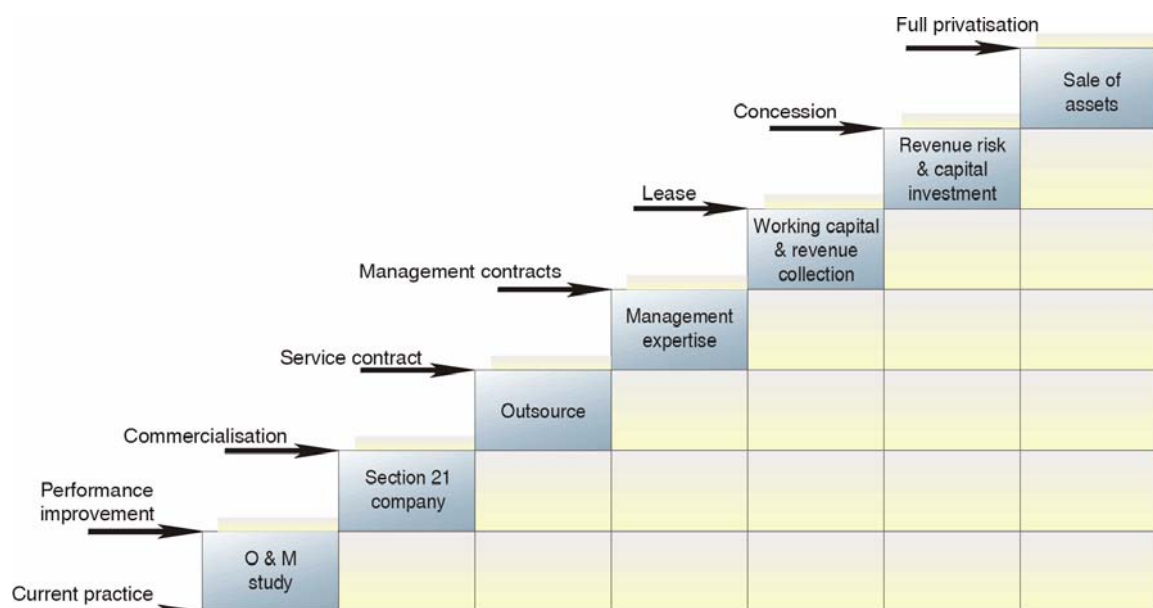


Figure 3-1: Generic MSP Options

3.3.1 Commercialisation

Also known as Corporatisation, this option is aimed at creating a ring fenced operation which operates in the same way as a private company but which remains fully owned by the authority. The benefits of this approach are that all aspects which contribute to the provision of the service are put into the new entity and the staff of the organisation is given more responsibility for the provision of the service. This creates a flexibility of approach which benefits the organisation and the customer. As with any company, management presents its business plan to the Board of Directors, in this case the Council or its nominated representatives, and is then required to perform against the approved plan.

3.3.2 Service Contract

This contract form is generally used to outsource specific elements of a service such as meter reading, equipment maintenance, etc. It is normally a short term contract, between 1 and 3 years, and the requirements of the contract are able to be very clearly defined.

3.3.3 Management Contract

A management contract is used when there is a need to bring in management expertise into the service provision function. Such contracts are generally for a 3 to 5 year duration and the contractor is responsible for providing the defined service as well for taking management responsibility for such provision.

3.3.4 Lease Contract

An authority may wish to make a particular facility, or group of facilities available to a contractor against payment of a lease fee and a contract for the supply of a particular service. Such a contract would be for a period in excess of 3 years and the contractor would be responsible for providing all the operating capital including maintenance and possible upgrade costs while the authority would remain responsible for any capital investment required for extension or rehabilitation.

3.3.5 Concession

A concession contract is normally for a period of 25 to 30 years and the contractor is responsible for providing the specified service as well as for providing all funding required for the necessary upgrades to the system. The requirements of a concession contract would be for the contractor to provide the predetermined service to the standards defined in the contract. The contractor would also be responsible for obtaining the revenue from the customers supplied and taking full risk on his ability to generate the required income.

3.3.6 Full Privatisation

National policy in South Africa does not support the privatisation of what is an essential basic service. For this reason, the privatisation of the water and sewerage service is not an option. It may, however, be appropriate for non-core elements of the present water service to be privatised where such a service can also provide a service to the private sector or to other authorities. An example of where this has happened elsewhere would be the scientific and laboratory services.

3.3.7 Principles Applicable to All Forms of Contract

Irrespective of which form of partnership or which form of contract is adopted there are certain principles which have to be applied.

The first of those is that the procurement process has to be based on all available information being made available to the prospective contractors. As part of this procurement it is also preferred practice that a competitive bidding process be used where the bidders all receive detailed information on the existing conditions and the requirements of the contract. Linked with this is the requirement of a clear bidding document which defines the process to be followed and the information required from each bidder.

The position of the affected staff has to be very clearly spelled out in the terms of any contract. It would be normal to require that any entity which takes over the responsibility for the service provision has to take over all the staff attached to the existing operation on, at least, the same or similar terms and conditions as they enjoy at present. An alternative approach would be for the staff to be seconded to the appointed operator.

Any contract requires monitoring to confirm that the appointed contractor conforms to the requirements of the contract. Allowance has to be made, therefore, for Council to identify a person or persons who will undertake this task on their behalf. Such a contract will include a mechanism for the necessary costs of the monitoring process to be paid over to Council. This would normally be dealt with as a monthly management fee or a concession fee payable by the contractor to the Council.

4. SHORT LIST OF APPROPRIATE DELIVERY OPTIONS

In accordance with Section 78 of the Municipal Systems Act, the municipality is obliged to consider the internal mechanism of service delivery before considering any external mechanisms. In the case of Bohlabela, the internal delivery system and the various internal options are therefore considered in the following assessment along with selected external options. This will allow the assessment to take account of all the options available. Should a decision be made that an external mechanism be considered for more detailed assessment, then the Municipality will have to firstly follow the processes defined in the Act.

The options that have been identified as possibly being appropriate to the challenges facing Bohlabela at this time are described in the following paragraphs.

4.1 Water Services Provision by a Department of the District Municipality

In this option the District Municipality would take transfer of the staff currently employed by DWAF, DPW (if appropriate) and Maruleng in providing the water services to the area. It would appoint additional managerial and support staff to create an efficient and effective water and sanitation service provider department dedicated to the Maruleng area. This department would focus on the technical aspects of the service delivery and would make use of and co-operate with other departments of the district municipality such as human resources, treasury, legal, etc. Financing of the department would come from a combination of a subsidy from DWAF (generally with transfer DWAF will provide a subsidy equal to their cost of running the service for the year prior to transfer and this subsidy will reduce to zero over 5 years), from allocation from equitable share and from a gradually increasing amount of cost recovery.

The department would operate as a normal department of the municipality and would be subject to all the regulations and controls pertaining to other departments. The municipality would be responsible for obtaining grants to cover the cost of all new construction work, would be responsible for training and skills development and would take risk on whether it can generate sufficient income to cover the costs involved.

4.2 Local Municipality as Water Services Provider

While the district municipality would retain its responsibilities as Water Services Authority it could contract with the local municipality to provide the Water Services Provision function. In this option all the staff and facilities (both DWAF, municipal and DPW if appropriate) currently used to provide the service would be seconded or transferred to the local municipality who would also supplement that staff to create an effective organisation. The WSA would remain responsible for fixing tariffs but would be required to take account of the budget and proposals of the WSP in making such a decision. The local municipality as the WSP would be responsible for determining a budget which reflects all costs associated with the service provision (including those of the WSA) and for all billing and cost recovery measures. The full responsibility for maintaining and operating the system, including working to resolve matters such as dealing with informal connections and ensuring that an acceptable supply is received by all consumers, is then that of the WSP. The WSA would remain responsible, however, for obtaining funding for capital expenditure required for expansion, upgrade and reconstruction of the system. Any costs incurred in respect of funding, or obtaining funding, would form part of the payments to be made to the WSA.

4.3 Partnership between District and Local Municipality

In this option (which has been adopted for the Bushbuckridge municipal area) the district and local municipalities would create a water and sanitation service provider partnership and the district municipality, as the WSA, would contract with that partnership for it to be responsible for the provision of the service. The partnership would be responsible for all the WSP aspects detailed in the preceding section. The sending of accounts to consumers could either be done directly by the partnership or could be undertaken by one of the municipalities as part of its wider billing process.

In the early stages DWAF would also be a partner as they would be committing all their existing staff and resources. As the process of transfer took place, however, DWAF would become less involved in the management inputs and the partnership management would take over responsibility.

The partnership would be structured such that the WSA retains ownership of all the assets following transfer from DWAF. The partnership would be run by an advisory board comprising nominees from both municipalities and, initially DWAF, in an agreed ratio as well as external members who would be selected for the particular skills that they can add to the board, e.g., legal, financial, technical, etc.

All the existing staff of DWAF would be transferred into the partnership. The partnership would supplement the staff where necessary through direct appointments and they would also source specialist input from the Retail Water Distribution Project or through the use of appointed specialists. The partnership would be responsible for managing and controlling its own budget within the parameters determined by the advisory board and the WSA.

4.4 Partnership between the Local Municipality and CBO's

This approach would involve the WSA setting up a contractual relationship with Maruleng Municipality who would in turn, for the S-L-M area, establish contractual relationships with various community organisations who would take on the responsibility of providing certain aspects of the water services provision function within their own community areas. The Municipality would provide certain centralised support and specialist services and the CBO would undertake the day to day operational and maintenance function. Payment would be made to the CBO for the services rendered and they would employ community members to undertake the necessary tasks. The Municipality would be responsible for preparing accounts for the water services provided while the CBO would be responsible for issuing these accounts and for collecting payment on the accounts and paying it over to the Municipality

In respect of the Hoedspruit area it is suggested that the WSA has two options:

- Take transfer of the various water services facilities and associated staff from DPW and include the responsibility of operating these facilities in their agreement with Maruleng, or
- Conclude a Service Delivery Agreement with DPW for them to continue to supply the bulk service and to include the management of such agreement in the responsibilities contracted to Maruleng.

4.5 Possible Involvement of Private Sector

In order to strengthen capacity and to benefit from the knowledge and skills of an established water services operator, any of the above proposed water services provision functions could enter into a management contract with a selected operator for it to become an additional partner to support and assist the WSP in providing an effective service. The selected operator could either be from the public or the private sector.

If funding for the specific items which require capital expenditure cannot be obtained through normal funding routes then the use of a BOT (Build - Operate - Transfer) contract, either as part of the management contractor's responsibility, or as a separate contract, can be considered.

It is noted that the Blyde River Irrigation Board has recently advertised a tender for the operation and financial management of their new irrigation pipeline. A possible

5. STAKEHOLDER CONSULTATION

5.1 Stakeholder Meeting

A stakeholder awareness and consultation meeting was held on Tuesday 11 March 2003 at Edeni Lodge in the Maruleng municipal area. Participants in the meeting included the Mayors of Bohlabela District Municipality and Maruleng Local Municipality as well as councillors and officials from both these organisations.

5.2 Organisations Represented

The stakeholders in attendance represented the following organisations:

- Bohlabela District Municipality (the Water Services Authority)
- Maruleng Local Municipality
- Department of Water Affairs & Forestry
- Bushbuckridge Water Board
- Retail Water Distribution Project (Facilitation and Technical Presentations)

5.3 Process Adopted

Copies of a draft of this report, complete up to Chapter 4, were distributed to the participants prior to the meeting. A presentation was made highlighting the main features of the report as well as explaining the process requirements as defined by section 78 of the Municipal Systems Act. Following the presentations, the participants broke into three groups to discuss the ability of each of the four short listed options to respond to the key factors which had been identified.

5.4 Analysis of Outcomes

The following paragraph summarises the general approach and reactions on these key factors and gives comment in respect of general experience on the benefits or otherwise the options may present in this respect.

6. ANALYSIS OF ALTERNATIVE DELIVERY OPTIONS

In this section the various factors which impact on the short listed options will be discussed.

6.1 Ability to Raise Capital

None of the defined options have the ability to raise funding for new or expanded facilities. The responsibility for this will remain with the WSA which, at least initially, will have to access grant money for these matters. It has to a long term objective of the WSA to develop the financial structure of the service to an extent that it will eventually be able to borrow funding for capital expansion.

The stakeholder meeting tended to believe that the Department of Bohlabela option would have a higher chance of success in this regard due to it being part of the WSA organisation.

6.2 Ability to Effect Cost Recovery

The meeting believed that the Maruleng option would have the better ability to effect cost recovery due to its closeness to the communities and the fact that it could establish payment facilities in the area. It was also stated that indications had been given that people were prepared to pay provided they received a consistent service. Surveys supported the fact that people were prepared to pay but of concern was that the perception of reasonable payment levels was based on a range of R0.50 to R1.00 which was considerably less than the actual cost of supplying treated water of around R4.50 per kilolitre.

Experience elsewhere has shown that the more separate an organisation is from the community or municipality the better levels of cost recovery can be achieved. On the basis of the above options therefore the rating of each option on levels of cost recovery, from worst to best, will typically be:

- Local Municipality / CBO
- Local Municipality
- District / Local Municipality Partnership
- Department of District Municipality

In the case of S-L-M, there is history where communities have been making contributions to the cost of providing their own service. Careful thought will have to be given, should this option be considered, as to how, or if, successful cost recovery can be implemented. For the Hoedspruit area, it is clear that the Maruleng option will be the best one to achieve cost recovery.

6.3 Ability to Provide an Improved Service

Probably the most important of all the factors, the main focus of the WSP will be to provide a very different service to two distinct areas, S-L-M and Hoedspruit, neither of which permit major opportunities for economies of scale. It is therefore strongly considered that a localised approach will have the ability to provide the best service to the people of each area. The stakeholder meeting supported this approach by indicating preference for the options which involved the local municipality rather than the district municipality. For this reason it is considered that the Maruleng / CBO option will be the best approach for the S-L-M area while the option of the Maruleng on its own will

be the best approach for the Hoedspruit area.

6.4 Ability to Expand Service Coverage

Major expansion of service coverage requires capital investment. As stated earlier the only way that this can be accessed in the immediate future would be through grant funding or a BOT type of agreement for clearly defined expansion work. A well organised, technically efficient, organisation could, however, use its expertise to optimise the existing infrastructure to its fullest extent and increase the number of people served from the existing infrastructure. There are no obvious differences between the options in this regard although the stakeholders did believe that the options which involved Bohlabela would make it easier to link directly in to any available funding. If it should prove necessary for a dedicated water supply to be developed for Hoedspruit then this would be a possibility to apply the BOT concept as the income generated should be adequate to fund this process.

6.5 Affordability of Tariffs

Tariffs will always stay under the control of the WSA who is the only body authorised to decide on the actual tariffs. The critical effect on the tariffs, therefore, is the ability of the WSP to contain costs and to be able to provide the level of services required on the most cost effective basis. The involvement of Maruleng in the selected option is considered important to correctly reflect the needs and restrictions applicable in this regard. It should also be recognised that the two main areas to be served are very different and, due to the different levels of service which can be afforded and which will be supplied in each area, it would be justifiable to have different tariffs applicable in each area.

6.6 Ability to Manage Risks to WSA

As the WSA with the constitutional responsibility of ensuring access to the services, the District Municipality will be at the higher risk should anything not work out as planned. The options where they have a direct involvement therefore constitute the lowest risk to them.

The Local Municipality would be at risk in the options where they were involved if any agreements with a CBO (or DPW as a provider of a certain service) were to collapse or be mismanaged. The assessment of risk in this case, from highest to lowest risk would therefore be:

- Local Municipality / CBO
- Local Municipality
- District / Local Municipality Partnership
- Department of District Municipality

6.7 Accountability and Governance

As all options involve local government itself it is not considered that there is any difference between the options in this regard. Care would, however, have to be taken with any agreements with a CBO to ensure that it had adequate and appropriate accountability and governance in its organisation and constitution. Such matters would then have to be carefully monitored and controlled to ensure that they are applied in practice.

6.8 Service Efficiency and Technical Capacity

All the options would be commencing from a low level of service efficiency and technical capacity. In the early stages they could add very little to the existing competencies of the DWAF operation. The option of the WSP being a Department of the District Municipality would probably have a slight advantage in this case as, due to their wider responsibilities, they could afford to access higher levels of expertise. The stakeholder meeting indicated that their preferred option in this regard would be the partnership between Bohlabela and Maruleng. In all cases, however, key personnel would have to be appointed who could provide the necessary technical and managerial expertise. Alternatively, the option of appointing an external support organisation could be considered.

6.9 Effect on Existing Staff

The issue relating to current personnel involved in the provision of the water and sanitation service is an extremely sensitive area and should be dealt with accordingly. Both the Labour Relations Act and the Framework Agreement for Restructuring Municipal Service Provision between SALGA and COSATU provide legal and process guidelines in this respect. Similarly, the identification and transfer of DWAF staff will be guided by their own agreed processes. The fundamental position is that staff should be involved in the process and should not be placed in a worse position as a result of the option selected.

The current practice is that where a new entity is established to provide the service, this entity should take over the current staff related to that service on terms and conditions to be negotiated - with the caveat that they should not be worse off. Given the importance of this aspect it is also practice to include in the contract with such an entity, clauses that obligate the entity to develop, train and empower these staff.

The stakeholder meeting recognised the importance of this aspect but did not believe that there were any major differences between the options in this matter.

6.10 Acceptability to Communities

The current poor condition of the water system and the service provided in the S-L-M area will mean that whatever option can show an improvement in that situation will be acceptable to the communities. The stakeholder meeting did, however, feel strongly that the options involving Maruleng would be more acceptable to the various communities. This is a reflection of the fact that the local municipality is perceived to be more closely linked with the communities than a district municipality.

6.11 Benefit of Involving the Private Sector

For construction projects use is generally made of private sector expertise in the form of consultants and contractors. It is possible to use a similar approach in the provision of a service by contracting with an experienced operator to provide clearly defined expertise or assistance. While not seen as an option on its own, the possibility of using the private sector, in a carefully controlled contractual situation, to support the preferred option could result in a faster development of the capacity and service levels required.

7. RECOMMENDATIONS

7.1 Recommended Option

It is recommended that the two most favourable options that should be considered are:

- The creation of a partnership between Bohlabela and Maruleng to act as the WSP for the Maruleng area, or
- The appointment of Maruleng as the WSP for the area.

In both the above cases, maximum use should be made of existing and new community based organisations to take responsibility for clearly defined aspects of the water services provision in their own areas. The level of involvement and responsibility taken by each of these organisations should then be taken into account in determining the tariffs applicable in each area.

It is impossible, in this study to differentiate between the above two options. The benefit of the involvement of Bohlabela is that it will have more resources available to it and will therefore be available to contribute at a senior and management level to the organisation. The direct involvement of the WSA will also facilitate communication as well as simplifying the process of accessing capital funding.

The benefit of the Maruleng option will be a more direct focus on the needs of the area and a concentration of resources in its own area. It can also develop a ring fenced service provider within its own organisation which would have spin off benefits for the broader services it has to provide.

7.2 Reasons for Not Favouring the Other Short Listed Options

The option of creating a dedicated department within Bohlabela was not supported due to its perceived remoteness from the communities of the area. It is clear that the expectations of the communities are focussed on their own local municipality and the councillors and officials of this municipality have a much more direct linkages with these communities.

While the option of the partnership between Maruleng and the various community based organisations had many attractions, it was considered impractical to involve such CBO's formally in a partnership. This was based on the number and different types of CBO's as well as the difficulty in establishing a legal partnership agreement with organisations that generally are not themselves constituted on a formal legal basis. As explained in the previous section, however, the incorporation of the capabilities of such organisation into the ultimate WSP is still seen as one of the key success factors.

7.3 Way Forward

It is now proposed that joint meetings of the relevant Council representatives from Bohlabela and Maruleng consider this report and that they make the final decision on the preferred structure of the Water Services Provider to be appointed to take responsibility for the service provision in the Maruleng area.

ANNEX 1

WSP OPTIONS WORKSHOP ATTENDANCE REGISTER